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SQUARE FEET

Earning a Profit by Ending Energy Waste

By ALEC APPELBAUM

The Community Preservation Corporation, a 35-year-old nonprofit lender that specializes in issuing mortgages to landlords of small buildings and properties receiving public subsidies, is offering \$1 billion in credit to [New York State](#) apartment building owners.

The group's new "green financing initiative" offers mortgages or refinancing to landlords who fix wasteful energy and water systems in their buildings.

The initiative presumes that savings from such retrofitting will be large enough for an owner to cover a loan with profit to spare, said Sadie McKeown, a senior vice president with the organization. As Ms. McKeown told an online seminar of 70 potential borrowers on Nov. 10, "we want to empirically show upside after a retrofit."

The backers of the initiative include the government-controlled mortgage agency [Freddie Mac](#), [New York City](#) and State public employee pension funds and a consortium of banks. These investors have worked with the corporation over the decades to assemble financing for buildings with low-income tenants, and now some of these buildings need retrofits to become profitable or saleable.

Michael D. Lappin, the Community Preservation Corporation's chief executive, said the new fund was an effort to induce owners and lenders — including his organization — to reap value from fixing buildings as they age. Mr. Lappin said the idea for the initiative came to him last summer, when he commissioned a study of the energy costs in the corporation's portfolio and found extreme variations. Some buildings were spending seven times as much for heat and hot water as other comparable buildings, he said.

Andrew Padian, an energy expert who joined the Community Preservation Corporation's senior staff in March, said common building flaws wasted many thousands of dollars a year. These problems are as simple as boilers that send constant heat to apartments, stairwells with lights on when nobody needs them and landlords who refuse to install dishwashers, letting water costs run wild.

Proposed regulations in New York City would require landlords of older buildings to conduct energy audits every 10 years and meet benchmarks for energy efficiency, or pay fines. The corporation's initiative could give owners of buildings with low-income tenants a head start in finding fuel savings. The organization's loans carry an interest rate of about 6 percent.

Since the program began last month, owners of 10 buildings have received \$18 million in financing to fix up 725 apartments. The buildings include a 375-unit complex on West 110th Street, a 17-unit walk-up co-op on

East First Street and a low-income garden apartment complex in Bedford Hills in Westchester County.

Some owners are refinancing existing mortgages with the corporation, while others are creating new ones. Mr. Lappin said he expected the fund to commit the full \$1 billion, across the state's cities and inner suburbs, by 2013.

All of the landlords that have received financing began by showing two years' worth of fuel cost records and authorizing the organization to monitor their energy use. After analyzing where landlords are wasting energy, the corporation conducts a walk-through with a mortgage officer and Mr. Padian, and a list of recommended fixes is created.

The corporation then finds public incentives, like federal weatherization grants, to help lower the costs of the repairs. The landlord hires relevant consultants and contractors.

Mr. Lappin said that because many problems reflected poor design throughout buildings, retrofits should cost an average of \$3,000 to \$4,000 per apartment, whether the building was large or small, old or new. A first step involves measuring how much fuel and water a building uses, rather than how much a landlord pays in fuel and water bills. "That means looking at air shafts, faucets, shower heads," he said.

One fundamental problem is that many property managers are poorly trained in energy management. Some owners, for instance, have neglected to remove obsolete dumbwaiter shafts, which suck up heat from inefficient boilers, Mr. Padian said. "An architect told us that it was against the building code to remove dumbwaiter shafts," he told the seminar. "We had to show him a memo from the buildings department — from 1950 — that said it was allowed."

Electricity waste is also common, Mr. Padian added. "The cost per square foot of lighting common areas ranges from 20 cents to more than \$3," he said. "Even though elevator buildings cost more, it's not because of the elevator. It's because those buildings have two stairwells with lights on 24 hours a day."

The green financing initiative is aimed at correcting basic existing flaws rather than installing more advanced green technology like alternative fuels, solar panels and green roofs.

The 54 East First Street co-op, for example, is refinancing a \$470,000 mortgage with a new \$600,000 mortgage. Steve Miller, president of Plymouth Management Group, which manages the building, said that the desire to refinance led the company to approach Mr. Padian, who offered a higher credit line if the board approved energy-related improvements.

"It needs new boilers," said Gregory Sherman, who oversees work on existing buildings for a consulting firm called Bright Power, which reviewed 54 East First Street. "They had an antiquated heat timer and a dumbwaiter shaft, and in the basement they had windows that are sources of heat loss."

Mr. Sherman said that like many older buildings, this one had longstanding flaws. "They have a lot of uninsulated pipe in the basement, which was heating the empty basement to a pretty comfortable temperature, and the domestic hot water boiler's current was moving up the flue continuously."

The repairs include a "motorized redamper," he explained. "This ties in the boiler and burner so that when the boiler fires, the flue damper allows the gas to escape up to the apartments. But at all other times, which

is probably 80 percent of the time, you want that damper closed.”

Mr. Padian said the investments were likely to pay for themselves well in advance of loans coming due. “The payback is four to five years,” he said.

As the program makes more loans, Mr. Lappin said, it could create business lines for his organization and for other companies. For banks that have inherited a host of insolvent buildings, he explained, “contracting to do retrofits may become a significant part of what we do.”

This article has been revised to reflect the following correction:

Correction: November 20, 2009

An article on the Square Feet pages on Wednesday about an initiative to offer mortgages to landlords who fix wasteful energy and water systems misstated the frequency of energy audits for older apartment buildings under proposed New York City regulations. They would be conducted every 10 years, not annually.

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